

**ELECTION BY FAMILY-OWNED CORPORATION
TO BE EXCLUDED FROM COVERAGE UNDER SECTION 383-7(20), HRS**

Please read the important information on the following page before electing exclusion from coverage.

1. Complete the following items:

- a. Employer Account Number: _____
b. Employer Name _____
c. Employer Address _____

2. Provide in the space below, the name and social security number of all employees of the corporation, percent of shares owned, and how these employees are related:

<u>Employee Name</u>	<u>Social Security #</u>	<u>% of Shares Owned</u>	<u>Relationship</u>
----------------------	--------------------------	--------------------------	---------------------

3. Upon request, you will be required to furnish the department a copy of Form 940, "Employer's Annual Federal Unemployment (FUTA) Tax Return" that you filed with the Internal Revenue Service.

4. The election for exclusion and certification must be signed by all employees of the corporation.

The undersigned elects exclusion from coverage under Section 383-7(2), Hawaii Revised Statutes and certifies that the information provided herein are true and correct. The undersigned also understands that in accordance with the Federal Unemployment Tax Act (FUTA), the department will provide information to the Internal Revenue Service to insure that FUTA taxes are properly paid.

Signature: _____
Print Name: _____
Title: _____
Date: _____

Signature: _____
Print Name: _____
Title: _____
Date: _____

Submit this form to your nearest Unemployment Insurance Branch Office:

Oahu
PO Box 700
Honolulu, HI 96809
Ph: (808) 586-8913
FAX: (808) 586-8929

Hawaii
777 Kilauea Ave # 122
Hilo, HI 96720
Ph: (808) 974-4086
FAX: (808) 974-4085

Maui
54 S. High St # 201
Wailuku, HI 96793
Ph: (808) 984-8410
FAX: (808) 984-8444

Kauai
3100 Kuhio Hwy # C-12
Lihue, HI 96766
(808) 274-3025
FAX: (808) 274-3028

ELECTION BY FAMILY-OWNED CORPORATION TO BE EXCLUDED FROM COVERAGE UNDER SECTION 383-7(20), HAWAII REVISED STATUTES

WHO IS ELIGIBLE?

If your business is a family-owned private corporation organized for profit and:

1. The corporation has, as its only employees, individuals of a family, related by blood or marriage; and
2. each employee owns at least fifty percent (50%) of the shares issued by the corporation,

you are eligible to elect exclusion from coverage under Section 383-7(20).

WHAT YOU SHOULD CONSIDER BEFORE ELECTING EXCLUSION FROM COVERAGE.

1. The exclusion from coverage is irrevocable for five (5) years.
2. In the event your business closes, you will not be eligible for unemployment insurance benefits.
3. You are still liable for Federal Unemployment Taxes (FUTA).
4. Your FUTA tax liability as an excluded corporation may be more than the combined State UI and FUTA tax liability of a covered corporation. This is because you no longer qualify for a 5.4% FUTA tax credit afforded to employers covered under Hawaii State Unemployment Insurance (SUI) laws. As a result, your FUTA tax rate will increase from 0.8% to 6.2% of the first \$7,000 paid to your employees.

For example: In calendar year 1990, a Hawaii employer with one employee that owned at least 50% of the shares issued by the corporation was paid \$19,900. The employer has a Hawaii SUI tax rate of 0.5% and is required to pay 0.5% of the taxable wages of \$19,900.00 or \$99.50 in SUI taxes. In addition, the employer must pay FUTA taxes at only 0.8% of the FUTA taxable wage base of \$7,000 or \$56.00 for a total tax liability of \$155.50. If the employer elects exclusion from Hawaii SUI, the employer will not be liable for the \$99.50 in SUI taxes but may pay FUTA taxes at 6.2% of \$7,000 or \$434.00 -- a tax increase of \$278.50.

REPORTING REQUIREMENTS

1. Upon request, will be required to furnish the department a copy of Form 940, "Employer's Annual Federal Unemployment (FUTA) Tax Return" that you filed with the Internal Revenue Service.
2. You are also required to report the following changes that affect your eligibility for exclusion from coverage with five days from the date of change:
 - a. Date that the corporation hired employees other than 50% owners;
 - b. Date that any owner owns less than 50% of shares issued by the corporation;
 - c. Date that any owner is not a family member related by blood or marriage;

TERMINATION OF YOUR EXCLUSION

After five years, you may request, in writing, to terminate your exclusion from coverage.